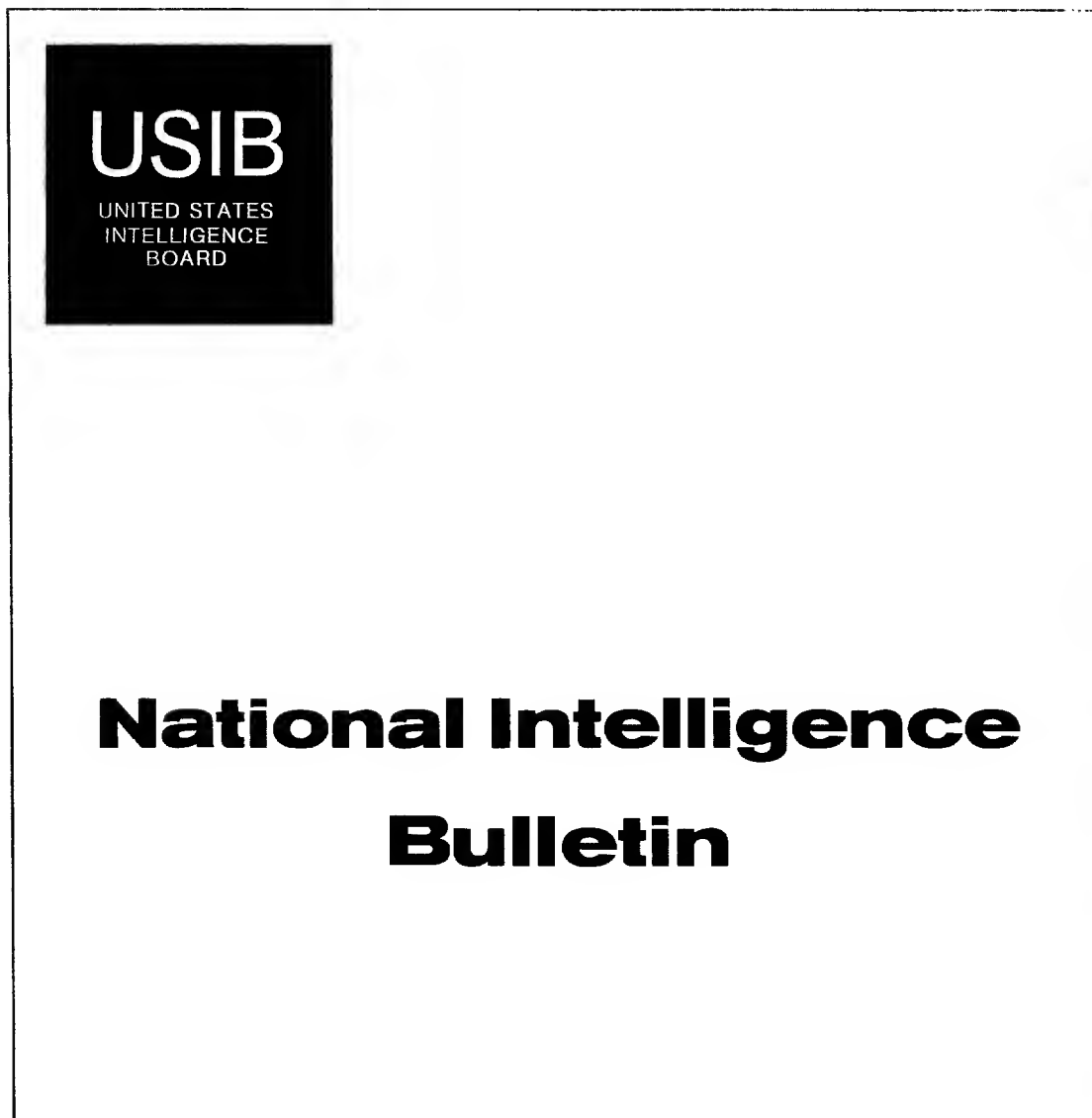


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National Intelligence Bulletin

July 25, 1974

CONTENTS

CYPRUS-GREECE: Cease-fire on Cyprus appears to be taking hold. (Page 1)

JAPAN: New finance minister apparently wants to relax government's tough anti-inflation program. (Page 4)

USSR: Central Committee plenary session hears report by Brezhnev. (Page 5)

LIBYA-EGYPT: Assessment of relations. (Page 6)

EGYPT: Sadat's views on Palestinian-Jordanian coordination. (Page 8)



25X1

IRAQ: Dissension on the increase within ruling Baathist regime. (Page 12)

CAMBODIA: Fighting not going well for Communists. (Page 15)

VIETNAM: Assessment of military activity. (Page 17)

LAOS: Government faces major economic problems. (Page 19)

INDONESIA-JAPAN: Jakarta presses Tokyo on economic commitments. (Page 20)

FOR THE RECORD: (Page 21)



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National Intelligence Bulletin

July 25, 1974

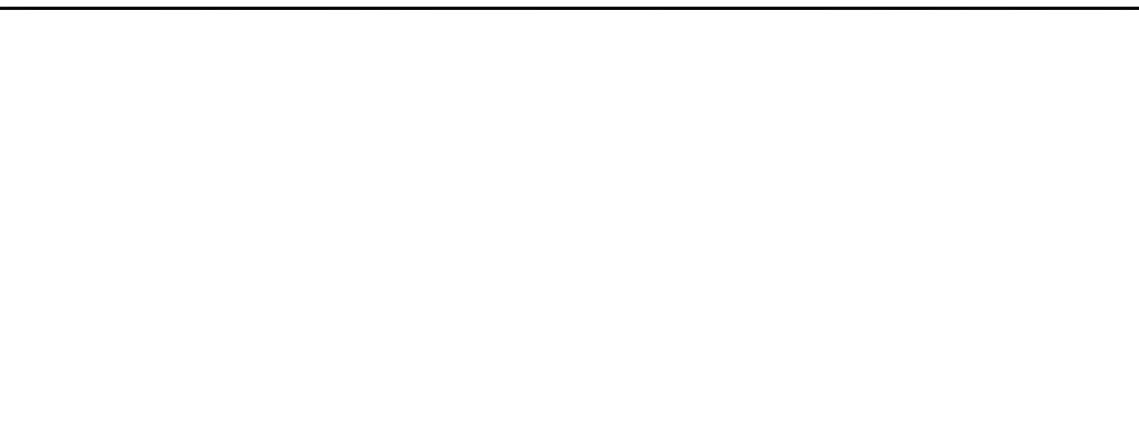
CYPRUS-GREECE

The cease-fire on Cyprus appears to be taking hold.

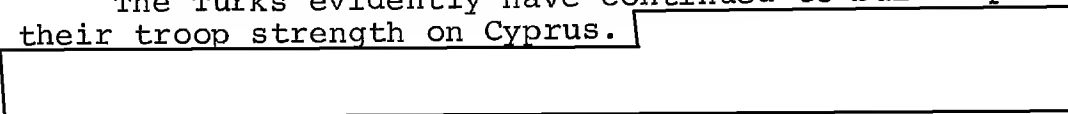
Fighting stopped in Kyrenia yesterday, and in Nicosia, the other center of action, there were only scattered incidents in the morning near the UK High Commission and along the "Green Line" dividing the Greek and Turkish Cypriot communities. There were a few clashes reported from outlying Turkish Cypriot villages.

Diplomatic pressure on Ankara last night averted a possible major clash for control of Nicosia airport between Turkish forces, estimated at one infantry battalion supported by six tanks, and the 400-man UN contingent. At the UN Security Council meeting last night, the Turkish ambassador finally announced Ankara's agreement not to attack the UN forces.

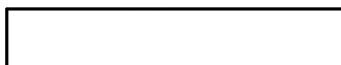
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The Turks evidently have continued to build up their troop strength on Cyprus.



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National Intelligence Bulletin

July 25, 1974

On the political front, the newly sworn President, Glafkos Clerides, stressed the continuity of constitutional government in his effort to restore normal political operations on the island. He told a press conference that he wanted elections for the presidency and parliament to be held as soon as possible. The constitution requires elections no later than 45 days after the installation of an acting president.

Archbishop Makarios' intentions are crucial. Clerides said that it is up to the people whether the archbishop returns, but that it would be "unwise" for him to do so now. Cypriot Foreign Minister Dimitriou warned privately that "blood will flow again" if Makarios returns, and urged the US to prevent his return for at least three months. Clerides' chances in an election against Makarios would improve if the Cypriot Communists (AKEL) have in fact decided to support him, as party chief Papaioannou told a US embassy officer yesterday was the case.

The new Greek government, meanwhile, announced yesterday that it recognizes Makarios as the legal head of government on Cyprus.

Despite its name, Greek Prime Minister Karamanlis' "Government of National Unity" is essentially a two-party, center-right coalition of old-line politicians and technocrats. His new cabinet is deeper in leadership talent and expertise than any of the governments during the years of military rule.

The exclusion of the political left, whether from Karamanlis' preference or from the desires of a still influential military, will become a source of friction.

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Approved For Release 2007/03/28 : CIA-RDP79T00975A026800010014-9

Approved For Release 2007/03/28 : CIA-RDP79T00975A026800010014-9

National Intelligence Bulletin

July 25, 1974

JAPAN

Newly appointed Finance Minister Ohira apparently wants to get the economy moving again by relaxing his predecessor's tough anti-inflation program.

The most likely action would be an easing of the credit restraints that resulted in a sharp decline in private investment during the first half of this year. Ohira is already talking about selective credit relaxation aimed at permitting increased investment in industries that are still operating near capacity--notably the steel and chemical industries.

Ohira is more concerned about the prolongation of Japan's economic downturn than former finance minister Fukuda. Real gross national product declined sharply during the first quarter, and most economic indicators point to only a moderate recovery since then. With output stagnating, wages up, and profits declining, Japanese businessmen are pressing the government to stimulate demand. Ohira, who wants to secure the political support of the business community, will tend to be more responsive to these pressures than was his predecessor.

Although Ohira, as well as Prime Minister Tanaka, prefers less restrictive measures, any sharp policy change is unlikely because inflation remains a serious problem. Wholesale prices in June rose 1.3 percent, and further substantial increases are likely in the months ahead. The high rate of inflation was an important factor in the poor showing of the Liberal Democratic Party in recent elections.

National Intelligence Bulletin

July 25, 1974

USSR

The Soviet party's Central Committee met yesterday at a brief morning session to hear a report by General Secretary Brezhnev and to discuss the Supreme Soviet session, which opens today. The text of the Central Committee's closing resolution has not been announced, but it presumably expresses approval of Brezhnev's report on foreign and domestic developments since the Central Committee meeting in December.

When the Supreme Soviet opens, Council of Ministers members, including Premier Kosygin, will submit pro forma resignations, and a "new" Council of Ministers will be announced tomorrow. The brevity of the Central Committee plenary meeting argues against major changes, although some shifts may be made at the ministerial level.

The recent flurry of political activity has revived speculation that Brezhnev may be ready to try for formal consolidation of his personal leadership. Since 1970, when he began to play a more active role in Soviet foreign affairs, his lack of a government post has presented nagging protocol problems both for his reception of visiting chiefs of state and for his own visits abroad.

Khrushchev solved this problem by combining the premiership with his position as head of the party. Following Khrushchev's ouster, the Central Committee prohibited his successors from combining these two positions, in an effort to avoid the concentration of power achieved by Stalin and, to a lesser degree, by Khrushchev. There is no such ban, however, against combining the general secretaryship with Podgorny's prestigious but relatively powerless job as chairman of the Presidium of the Supreme Soviet, and it is this move that has been rumored in recent weeks.

However tidily this might dispose of the protocol problem, it has disadvantages from Brezhnev's point of view. It would alarm his colleagues in the Politburo without achieving any real political gains for Brezhnev personally. Equally important, the chairmanship of the Presidium has in the past been a position into which to maneuver rivals, and Brezhnev may not want to waste such a political resource.

National Intelligence Bulletin

July 25, 1974

LIBYA-EGYPT

The petty feuding that has characterized Libyan-Egyptian relations since the collapse of President Qadhafi's union project is a reflection of the basic disagreement between the two sides on how to confront the Israeli enemy. A recent focus of the dispute has been the extent of Libya's contribution to Egypt during the October war.

Detailed Libyan press accounts of Libya's role in the war have drawn Egyptian rejoinders--occasionally from President Sadat himself--disparaging the quality and extent of Tripoli's support. Sadat, piqued by Libya's undercutting of his efforts to obtain Arab support for his negotiating strategy, has also characterized the Libyans as erratic and incautious meddlers in international affairs. Last week, for instance, he made an off-the-cuff accusation, without directly mentioning Libya, of a Libyan attempt in May 1973 to torpedo the Queen Elizabeth II during a chartered voyage to Israel. The Libyan press, for its part, has recently made accusations that Sadat is trying to foment trouble among the Bedouin tribes that live astride the common border.

It is at lower levels of government and in the press that sniping and posturing have been most intense. Although they have done little to curb their subordinates, Sadat and Qadhafi have tried to stay out of the public exchanges and when drawn in have been more moderate than the others. Government-to-government relations can still be characterized as correct but cool. It is always possible, however, that an incident could blow up into a major diplomatic issue or provoke one leader to act directly against the other.

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National Intelligence Bulletin

July 25, 1974

EGYPT

During his Revolution Day speech on Tuesday, President Sadat elaborated on his concept of Palestinian-Jordanian coordination in a manner designed to ease the misgivings of those on both sides who are suspicious of his effort at reconciliation. At the same time, he clearly avoided making unrealistic promises and attempted to impress on the contenders, particularly the Palestinians, the necessity for compromise.

Sadat took credit for gaining "international" recognition of the Palestine Liberation Organization as the "legitimate" representative of the Palestinians, and even contended that King Husayn had agreed to drop Jordan's reservations about the legitimacy of the PLO's representative status. At no point in the speech, however, did he use the now-standard Arab characterization of the PLO as the "sole legitimate" representative; by dropping the word "sole," he thus notified the Palestinians that he intends to adhere to his accommodation with Husayn according Jordan the right to represent Palestinians within the Kingdom of Jordan.

On the particularly delicate issue of who has the right to negotiate for an Israeli withdrawal, Sadat seemed to re-emphasize his agreement with Husayn last week that Jordan will do the negotiating. Using a formulation first surfaced by Foreign Minister Fahmi, Sadat asserted that Jordan has agreed to hold the West Bank in trust--as Egypt will do with Gaza--"until the people determine their wishes." This concept serves Sadat's attempts at mediation by notifying the Palestinians that they cannot expect to negotiate for territory while their position is not unified, as well as by committing Husayn to follow through on his promises to allow the Palestinians self-determination after an Israeli withdrawal.

In a further effort to impress on both sides the need for flexibility, Sadat repeatedly emphasized that he seeks coordinated, not identical, views and that, while he appreciates the difficulties involved, any

National Intelligence Bulletin

July 25, 1974

Arab failure to coordinate will only give Israel an opportunity to avoid coming to grips with negotiations. He thus attempted to place the burden for ensuring continued progress on those, particularly the Palestinians, who have refused to compromise. In an added jab at Palestinian rigidity over Jordan, Sadat noted that "supreme national interests, and supreme Palestinian interests in particular," are more important than "the most painful memories"--a reference to the Palestinians' bitter opposition to Husayn since his expulsion of the fedayeen in 1971.

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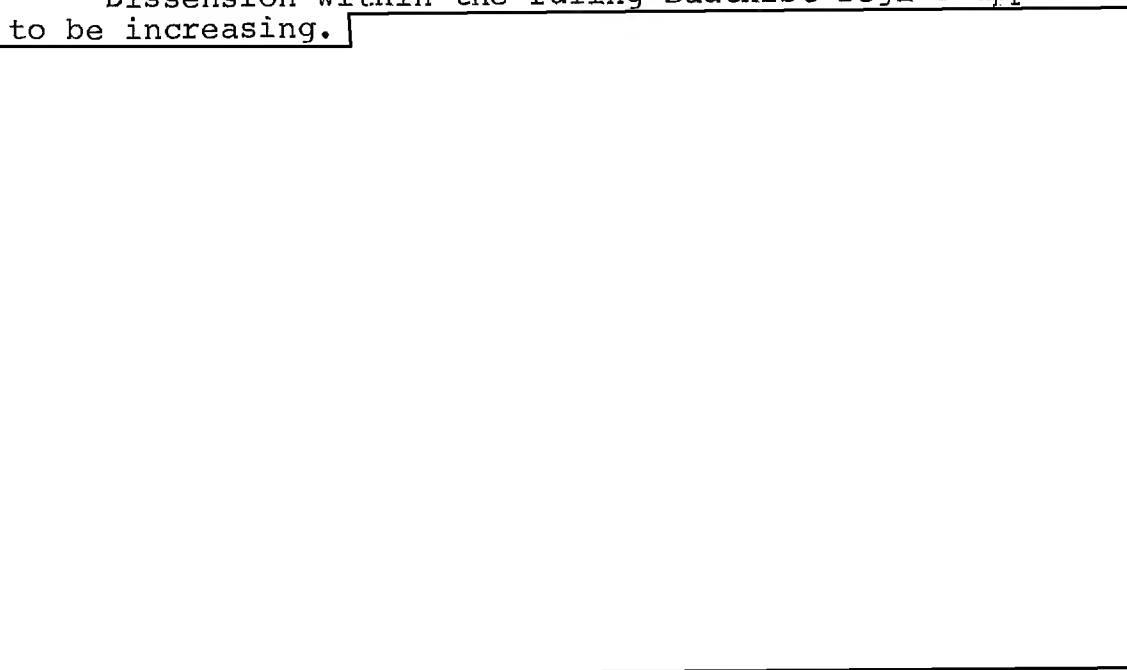
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National Intelligence Bulletin

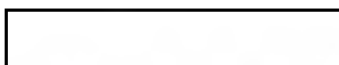
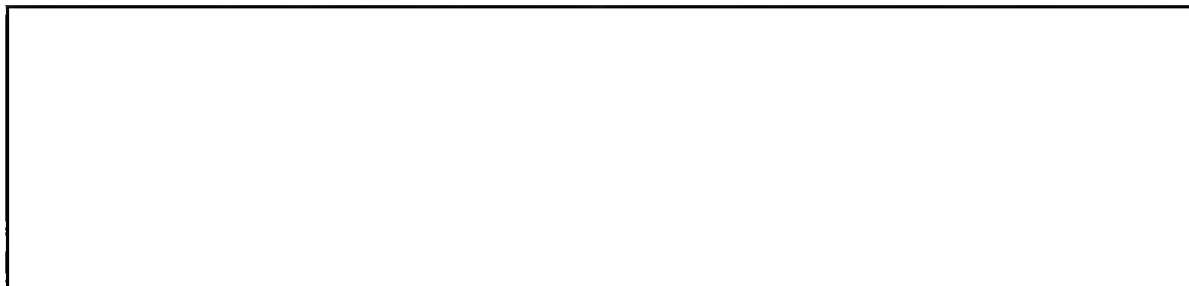
July 25, 1974

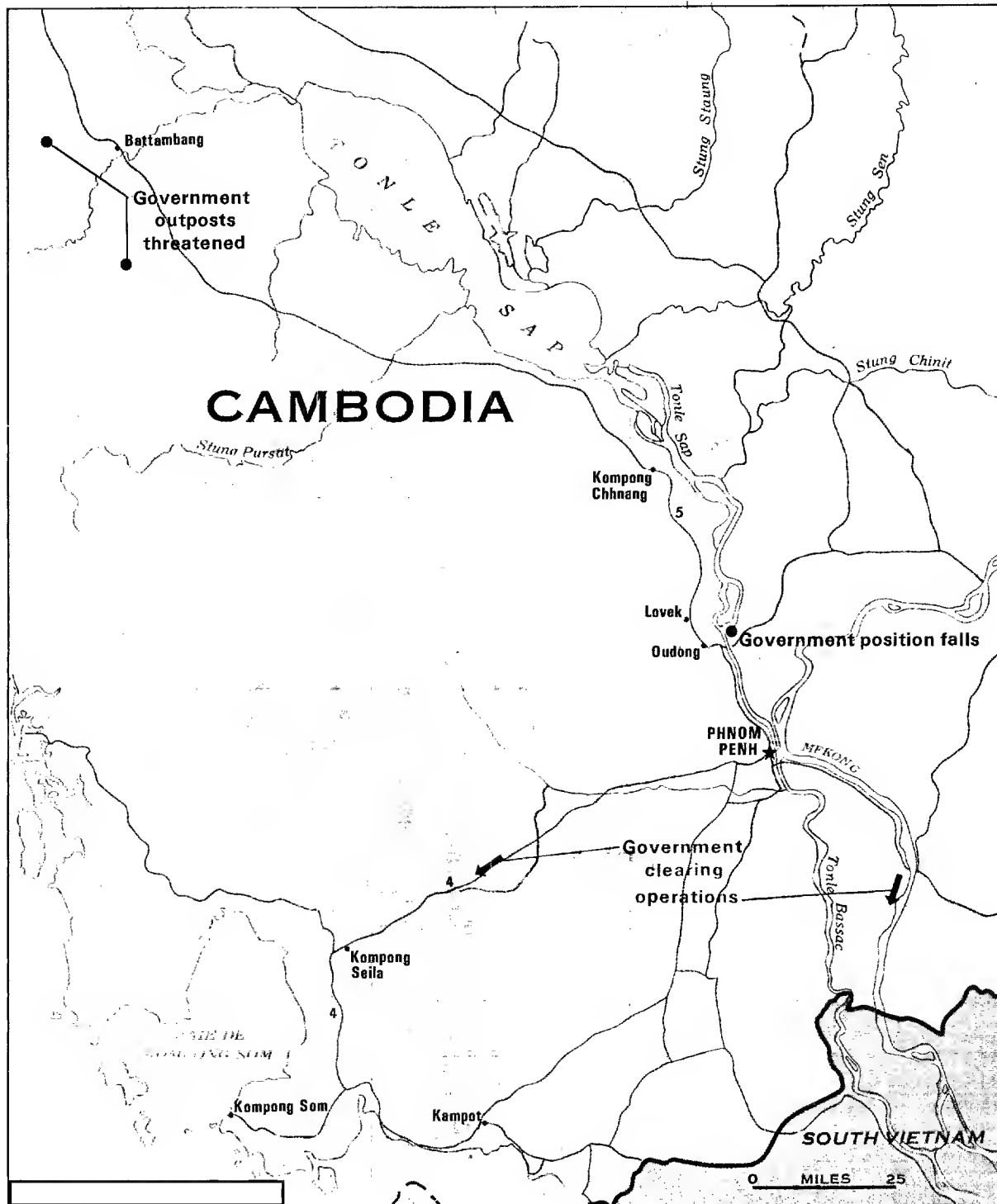
IRAQ

Dissension within the ruling Baathist regime appears to be increasing.



Public criticism of the regime also is reported to be increasing, largely because of its failure to bring the Kurds into line, either by selling its autonomy plan to Kurdish leaders or by the military campaign against the rebels led by Mulla Mustafa Barzani. Despite the government's attempt to play down the fighting in the north, the public is now aware that the military campaign against the Kurds is not going well and that Iraqi army casualties are mounting.





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National Intelligence Bulletin

July 25, 1974

CAMBODIA

Khmer Communist combat operations in most areas are still faltering.

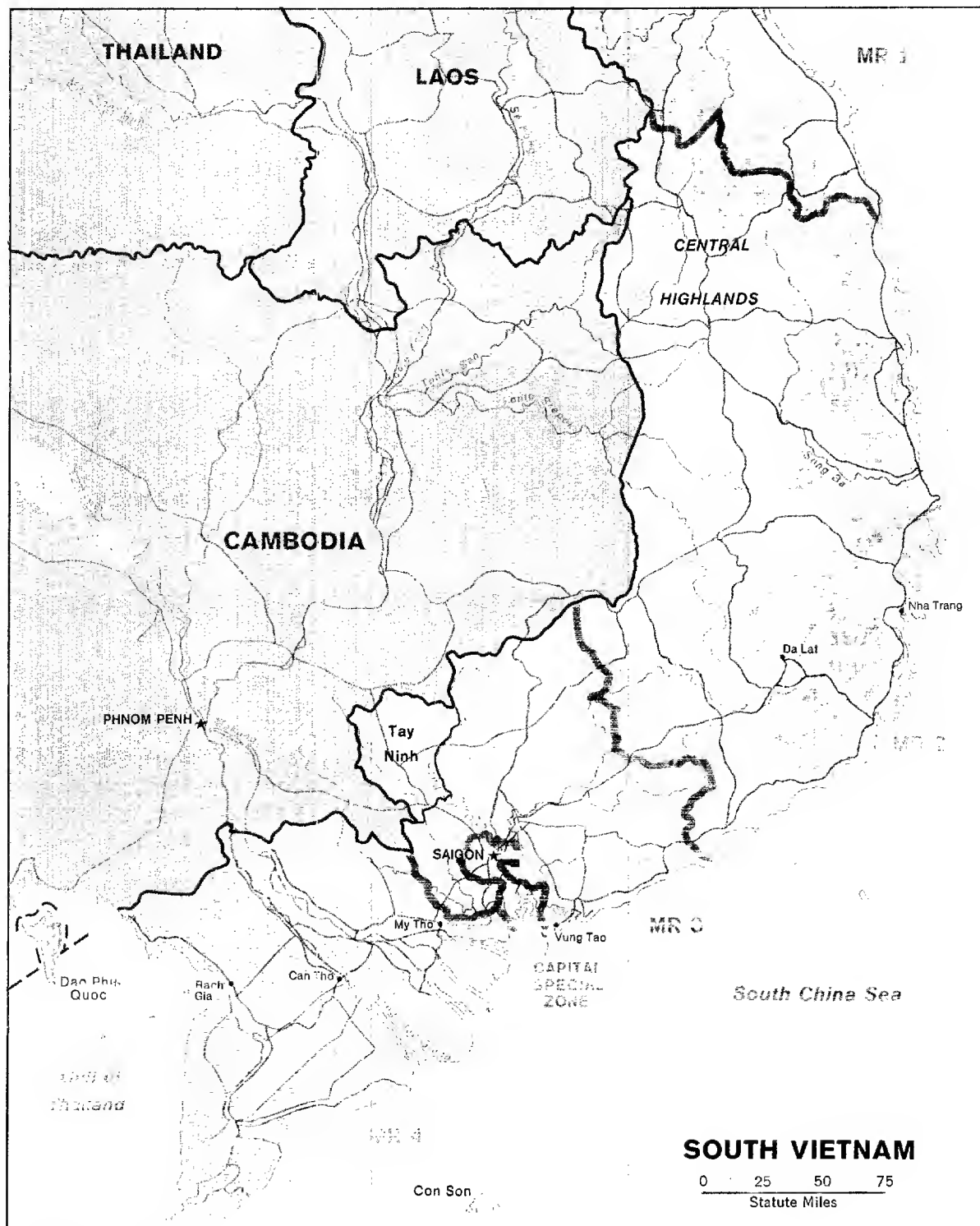
Communist efforts to reverse recent Cambodian army gains northwest of Phnom Penh and to regain control of key terrain have achieved only limited success. On July 23, insurgent forces overran a government position on the east bank of the Tonle Sap River opposite Lovek. Nevertheless, government forces have maintained some offensive momentum and are making progress in their effort to expand control west of Oudong. Heavy casualties and continuing [redacted] problems have left Khmer Communist main force units in the area vulnerable to government operations. [redacted]

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Government clearing operations proceeding along Route 4 toward the besieged garrison at Kompong Seila and along the Mekong River are causing serious concern within insurgent ranks. Communist forces on these fronts have, at least for the present, apparently resigned themselves to stand-off attacks and other actions involving limited forces in an effort to discourage further government advances.

In the far northwest, however, the Khmer Communists have generated some new initiatives. During the past week local insurgent forces have increased pressure against two government outposts in Battambang Province. The government's failure to react more decisively to recent insurgent operations in Battambang has encouraged the Communists to try to expand their holdings. [redacted]

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National Intelligence Bulletin

July 25, 1974

VIETNAM

Fighting remains heavy in some parts of the country, but its overall intensity has decreased in the past few days. Communist military forces have gained additional territory and people in southern Military Region 1 and in the southern delta, and are pressing the attack in the central highlands. The Communist intent in each area is the same: expand land holdings, eliminate the government's military presence, and secure infiltration corridors.

The Communists have used small military forces to hit South Vietnamese military installations, interdict key highways, and attack remote outposts. In many cases, especially in the delta, these outposts have been manned by local security forces, who have proved little match for well-timed attacks by better prepared Communist troops, and most of them have been abandoned with the government units regrouping elsewhere. Presumably, Saigon will attempt to retake many of these positions.

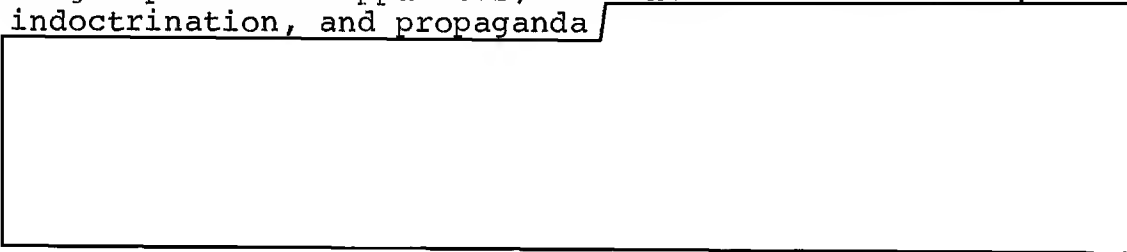
In the central highlands and to some extent in the southern provinces of MR-1, North Vietnamese main forces have done the fighting, but infantry have been used sparingly. Heavy artillery and mortar attacks have preceded the ground assaults, causing some South Vietnamese commanders to speculate that the Communists have far greater amounts of ammunition to expend than government troops. Much of the government's poor showing, however, has resulted from a lack of coordination between ground, air, and artillery forces, and the unwillingness of government commanders to defend remote positions that are difficult to resupply and reinforce.

Further periods of intense fighting will probably occur for the rest of the year.

National Intelligence Bulletin

July 25, 1974

In conjunction with limited military action, the Communists will continue efforts to strengthen the Viet Cong's political apparatus, and increase recruitment, indoctrination, and propaganda



National Intelligence Bulletin

July 25, 1974

LAOS

The Provisional Government of National Union is facing the first major economic hurdle since its formation three months ago. Soaring costs of imports, particularly petroleum products, and costs associated with setting up the new government have brought official foreign exchange holdings to dangerously low levels. These difficulties have prompted the temporary closing of commercial banks and the suspension of foreign currency transactions.

Aside from these moves, the coalition government has done little to solve the problem. Its inaction largely results from the inability of Prime Minister Souvanna Phouma to make key decisions because of his recent heart attack. In addition, the Pathet Lao are reluctant to be associated with the large devaluation recommended by the International Monetary Fund--which would result in increased consumer prices. As a stopgap measure, the Pathet Lao have approached the US, China, and the Soviet Union for \$2 million in foreign exchange, but none of the three has so far acceded to the request. A cabinet meeting is scheduled today to discuss recommendations by the International Monetary Fund.

Prices of a number of commodities, including rice, have already increased, largely because Thai merchants are holding supplies off the market until a new exchange rate is determined. The only available Vientiane price index jumped almost 14 percent between July 17 and 24, bringing it 52 percent above the figure at the end of 1973. Inflation will continue to accelerate until the government finds a solution to the present problems.

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National Intelligence Bulletin

July 25, 1974

INDONESIA-JAPAN

Jakarta may apply strong economic pressure on Tokyo in negotiations next month to prod Japan into fulfilling a prior financial pledge.

At issue is Jakarta's claim that Japan is dragging its feet on the \$540-million Asahan project, which has been under discussion since 1972. As originally planned, the project includes construction of a \$200-million hydroelectric plant, a \$300-million aluminum smelter, and related facilities. The Japanese consortium involved in the project is having trouble securing low-cost funds from the government to help finance the project. In addition, cost estimates for the project have risen substantially.

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Japan now obtains 15 percent of its oil supply and much of its rubber, tin, and wood products from Indonesia.

Both sides are likely to compromise to avoid a confrontation. Indonesia, for example, could offer to provide a tax holiday in exchange for low-cost credits. Nevertheless, the friction surrounding the Asahan talks is likely to aggravate existing strains in Japanese-Indonesian economic relations.

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National Intelligence Bulletin

July 25, 1974

FOR THE RECORD

Portuguese Africa: The Portuguese government last week officially recognized the right to independence of the peoples of the overseas territories, according to an announcement made yesterday in Lisbon. Although the new law will apply to all of Portugal's territories, its most immediate impact will be felt in Africa, where Lisbon is actively seeking political settlements in Portuguese Guinea and Mozambique. In Angola, where rival insurgent groups remain bitterly divided, the announcement of this law is unlikely to have an immediate effect. Formal recognition of the right of independence for the African territories has been one of the conditions demanded by anti-Portuguese liberation movements in the territories. Lisbon's move may mean that a settlement in one or more of the African territories could be near. [REDACTED]

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Cuba-Colombia: A treaty covering "air and maritime piracy and other crimes" was signed simultaneously in Havana and Bogota on July 22 by representatives of the two countries. The antihijacking agreement is apparently patterned on similar treaties the Castro regime has signed over the past 18 months with the US, Canada, Mexico, and Venezuela. The Colombian foreign minister characterized the agreement as "the most decided step toward a rapid normalization of relations with Cuba." He commented, however, that recognition of Cuba by Colombia probably will not come until after the inauguration of the new president on August 7. [REDACTED]

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Italy: Italian commercial banks have been forbidden to increase their foreign debt beyond the amount outstanding on July 19. Large inflows of short-term bank capital had made central bank intervention to support the lira unnecessary in recent weeks. The monetary authorities are apparently worried that these capital inflows are creating superficial optimism about Italy's balance of payments, and that borrowing abroad might circumvent tight domestic credit policy. [REDACTED]

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